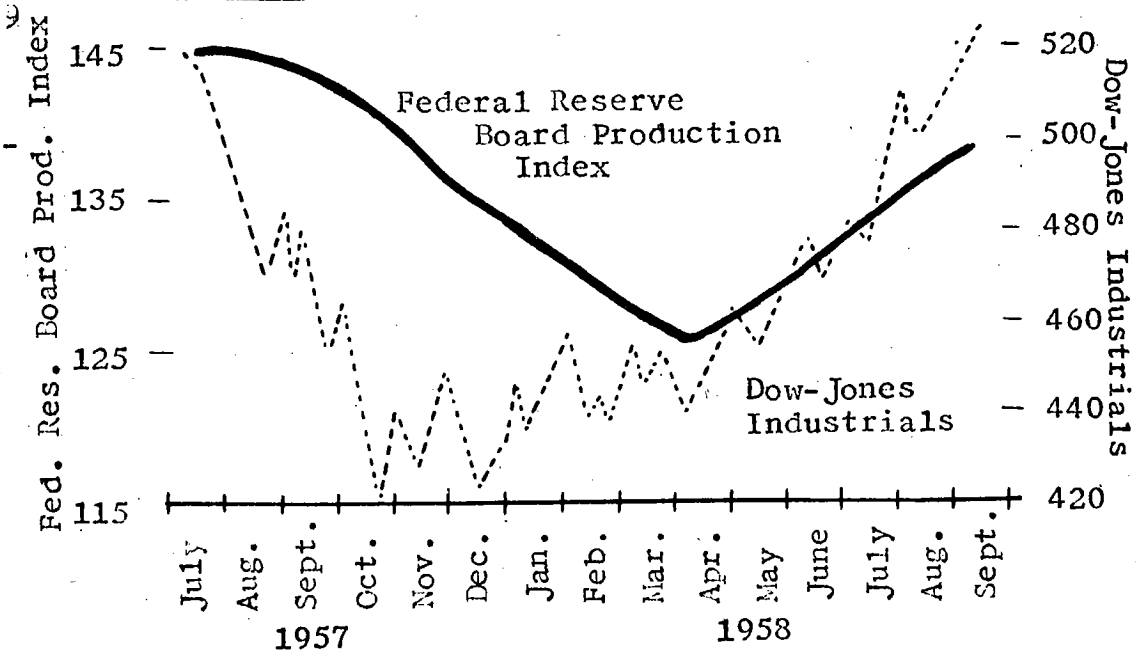
William P. Hamilton wrote, "There is no business so small that it can afford to disregard the stock market barometer. Certainly there is no business so large that it dare disregard it." The fact that the averages can predict future turns of business is one that seems to generate tremendous resistance and disbelief among those who have not studied Dow's Theory. Yet this is the cornerstone upon which the Theory stands. Unfortunately, few people take the trouble to examine the waiting evidence, preferring to allow their emotions and skepticism to obscure the historical facts.

The averages are composed of all the knowledge available to the financial community. They contain more intimate knowledge than could possibly be available to the most informed man or group of men anywhere. Hamilton in 1921 said, "Prices are low because all the bearish factors our critics adduce have been discounted in the prices. When the market is taken by surprise there is a panic, and history records how seldom it is taken by surprise. Today all the bear factors are known, serious as they admittedly are. But the stock market is not trading on what is common knowledge today but upon the sum of expert knowledge applied to conditions as they can be foreseen many months ahead." A bull market had started at about this time.

Hamilton's observations could have been written in late 1957. The public, watching the market move upwards in the face of a deepening recession, thought that the averages had taken leave of their senses. Actually a phenomonon 62 years old was being repeated. The averages were predicting better things to come, and far ahead of the point where the experts or the crowd could see anything of an optimistic nature at all.

Because the stock market is our only accurate barometer of business, every businessman should follow Dow Theory, whether or not he owns a single share of stock. To disregard or to be unaware of the story that the averages tell has brought disaster to thousands of businesses, large and small.

Study the chart below; it is very recent history. In July, 1957, the averages began a steep decline. Three months later, in October, the Federal Reserve Board's Production Index turned decisively down, finally following the previously given prediction of the averages. But by this time the averages were telling a different story. As the economy plunged into a deepening recession (many top analysts called it a depression), the averages disregarded all the dire predictions and began plotting an obviously bullish course. What the averages saw in October, 1957 was not apparent until a full eight months later! In April, 1958, the F.R.B. Index hit bottom and by May it was moving up. Many uninformed people thought they were seeing things, but the averages had merely told their story far in advance. If this was a coincidence, it was a coincidence that has been repeated throughout the 62 year history of the averages.



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